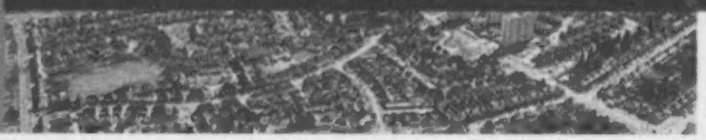
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Thunder Bay CMA



Canada Mortgage and Housing Corporation

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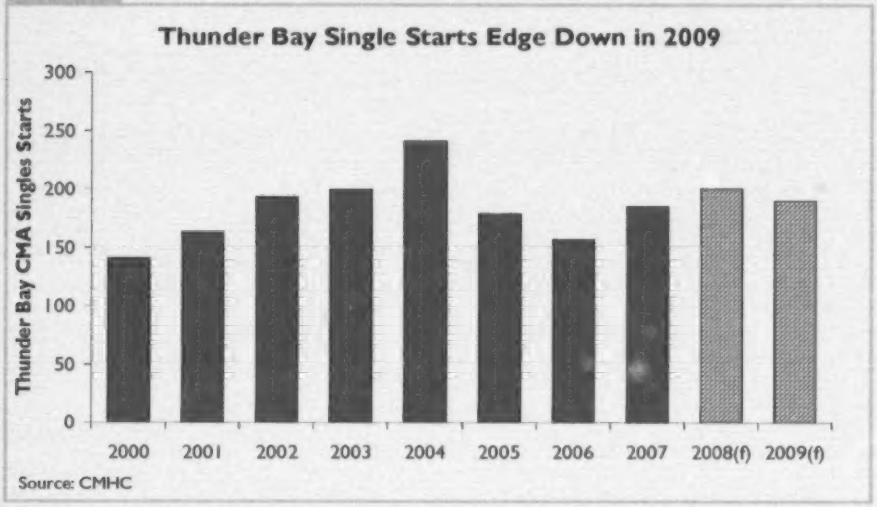
New Home Market

Single-Detached Starts Rising After Slow Start

A spillover effect from the resale market into the new home construction market has been witnessed to some extent with single-detached home starts rising throughout the year. After a slow start single-detached home starts in Thunder Bay are expected to recover to end the year up eight per cent in 2008 to 200 units and moderate 4.8 per cent in 2009 to 190 units as new home demand falls back in line with demographic requirements.

The healthy increase in single-detached home starts is being supported by average weekly earnings, which have risen quite strongly by 3.5 per cent to August 31st. Presently, we

Figure 1



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are on pace to see earnings rise this year the most since 1998. Still, average weekly earnings in Thunder Bay are weaker than Ontario's.

Other Types of Housing Starts Lacking

Meanwhile, there have been no semi, row and apartment starts recorded over the first nine months of the year, CMHC expects six semi-detached and ten apartment units to be started this year. For 2009 it is anticipated that 80 units will be built, comprised of ten semis, sixty condominium units and ten apartments.

With the vacancy rate hovering around 3.5 per cent with a downward trend and no significant new rentals on the horizon, the rental market could tighten over the foreseeable future. Adding to rental demand has been the shortage of listings on the ownership market. Those seeking homeownership options may have had to choose to stay in rental longer and not move. Those moving in from outside the community may have opted for rental as opposed to ownership for reasons of lack of choice in the ownership market or a perception of inflated priced in the resale market while the rental market remains quite affordable.

The Statistics Canada New House Price Index for Sudbury-Thunder Bay is reflecting strong demand for land and labour associated with the recent housing boom. Flat for several years, the index jumped 4.3 per cent in 2007 and is up another 6.2 per cent in to the end of July. The strength in this index is indicative of the strength in the Greater Sudbury market more so than Thunder Bay where the market remains much quieter.

Resale Market

Sales to Hit All-Time High

In spite of modest employment growth, demand in the resale market has been surprisingly strong, as evidenced by sales levels that are approaching a record for the Thunder Bay market.

After rising 3.5 per cent in 2007, sales should rise another 4.0 per cent in 2008 reaching a record level for the local Real Estate Board. Our research indicates that sales will edge down by two per cent in 2009 to reach 1,624 sales as the domestic and global economies slow down.

Sales of high-end homes are escalating in Thunder Bay. In 2007, sales of homes selling above $250,000 topped 100 for the first time ever rising 34 per cent from the year previous in total while so far this year, sales have risen 52.5 per cent from the same period last year.

Listings Are Low

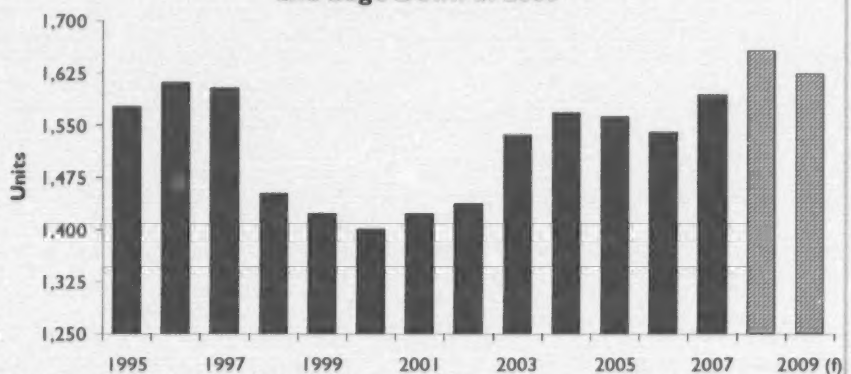
New listings across the Thunder Bay Real Estate Board territory were up 4.9 per cent year over year in the first nine months of 2008; however, active listings, a much better supply indicator are considerably below last year's levels. By the end of the third quarter there were 295 active residential listings in Thunder Bay's District 1, that is 20 per cent lower than last September.

Average time on market is also down exhibiting further strength in the market. The average time to sell a home over the first nine months of 2008 was 45 days, 16.7 per cent lower than 54 days on average over the first three quarters of 2007.

New listings for the whole Board territory should increase by 4.5 per cent in 2008 and will edge up 1.0 per cent in 2009 as homeowners

Figure 2

Resales to Hit Record This Year in Thunder Bay and Edge Down in 2009



Note: TBREB sales are for Districts 1 & 2 only.
Source: Thunder Bay REB, CMHC; (f) CMHC Forecast

look to capitalize on the recent increase in resale house prices.

Prices to Finish Year Strongly

Expect average prices to rise 8.3 per cent this year and moderate to 4.3 per cent in 2009. Despite this rapid price rise, Thunder Bay's market should remain a very affordable market and balanced in 2008 and 2009 as demand subsides and listings edge up.

Although employment growth will not be a very stimulative factor for the resale market, insufficient listings levels have provided enough fuel to spark a rise in average resale home values.

Economy

Thunder Bay Labour Market in Transition

Thunder Bay employment has been on the rise slowly over the last two years and is expected to rise 1.5 per cent in 2008 with another modest increase in 2009 of 0.8 per cent. Growth is coming in the Thunder Bay services-producing sector of the economy while the goods-producing sector is sliding, due primarily to widespread weakness in the forest products sector of the economy. As the economy slows down, mining will contribute less than it has over the past five year to the regional economy.

Although the forest products sector is forecast to have a positive influence on growth in 2009, it has been a drag on Ontario Gross Domestic Product (GDP) for the past five years. As a result, the economies of smaller forestry communities through the region are experiencing migratory movement into the regional hub, namely Thunder Bay. This combination of slow expansion, an economy in transition and migration from the weaker economies of the regional communities will stabilize the Thunder Bay economy and allowed it to grow modestly.

As alluded to, the service sector has been a key component of Ontario economic growth for the past number of years but in 2009, as the economy slows, the service sector will contribute less to Ontario growth.

Growing the Labour Force Proving to be Challenging

With weak employment growth, growing the Thunder Bay labour force will be challenging. This combined with net out-migration has tempered labour force expansion vis-à-vis employment growth, leading to a slightly lower unemployment rate expected in 2008.

A bright spot in age group employment is that participation rates of older employees are growing, as older workers stay in jobs or return to employment to satisfy demand for labour that exists presently. With front-end baby boomers retiring and more forecast to retire over the next five to fifteen years, this will be a recurring theme.

Although the Ontario manufacturing sector has been undergoing long term structural change, the forecast for a lower Canadian dollar will put less pressure on manufacturing in 2009 which bodes well for Northern Ontario exporters.

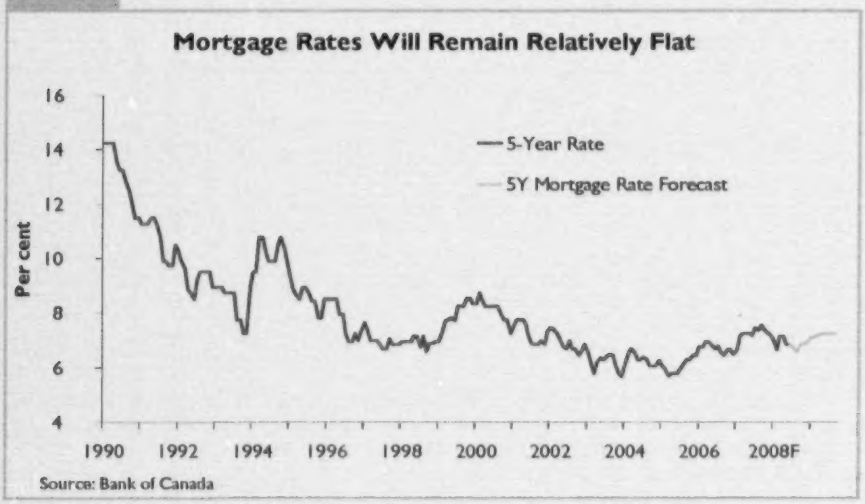
Bombardier is one of the local bright spots in the local manufacturing sector. This producer of subway cars and light rapid transit vehicles is working on contracts that will keep the facility busy in the near term. Reasonably strong commodity prices have increased activity in the mining and mineral exploration area in Northwestern Ontario which has spin-offs for Thunder Bay. Commodity prices are being challenged with could have an effect on the level of mining exploration activity in 2009.

Out-Migration From Thunder Bay Could Be Worse

Out-migration and net negative natural increase persist in Thunder Bay. The latest data for the CMA suggests both demographic indicators have been negative for at least the last four years.

Many Thunder Bay residents are working out of town in regional mining operations or places as far a field as the Alberta Oil Sands on schedules that have them working for periods of time and returning to Thunder Bay for respites of varying lengths of time. Having said this, net-migration will tend to be negative for the forecast period due to the strength of inter-provincial migration outweighing those coming into to the city from elsewhere in the province or from out of country.

Figure 3



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Forecast Summary
Thunder Bay CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	1,562	1,539	1,593	1,657	4.0	1,624	-2.0
MLS® New Listings	2,788	3,015	2,631	2,749	4.5	2,777	1.0
MLS® Average Price ($)	125,303	127,464	129,734	140,500	8.3	146,500	4.3
New Home Market							
Starts:							
Single-Detached	179	157	185	200	8.1	190	-5.0
Multiples	48	8	64	16	-75.0	80 **	
Semi-Detached	4	4	8	6	-25.0	10	66.7
Row/Townhouse	0	4	24	0	n/a	0	n/a
Apartments	44	0	32	10	n/a	60 **	
Starts - Total	227	165	249	216	-13.3	270	25.0
Average Price ($):							
Single-Detached	222,587	226,633	239,933	242,332	1.0	244,756	1.0
Median Price ($):							
Single-Detached	215,000	215,000	230,000	244,950	6.5	249,849	2.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.7	1.7	4.3	6.0	-	5.0	-
Rental Market							
October Vacancy Rate (%)	4.6	4.9	3.8	3.3	-0.5	3.0	-0.3
Two-bedroom Average Rent (October) ($)	689	696	709	717	1.1	730	1.8
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	63,800	61,500	63,000	63,900	1.4	64,400	0.8
Employment Growth (%)	1.5	-3.7	2.3		1.4		0.8
Unemployment rate (%)	7.1	7.7	6.7	6.0	-	5.8	-
Net Migration [1]	-428	-747	-411	-500	21.7	250 **	

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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